

Commonwealth of Massachusetts
Department of Telecommunications and Energy
Fitchburg Gas and Electric Light Company
Docket No. D.T.E. 02-24/25
Record Request Response

Record Request No.: DTE-RR-41

Refer to Line 33 from Schedule MHC-8 (electric) and Line 23 from Schedule MHC-8 (gas). Please file a schedule to show how the capitalized lease amount of \$1,949,973 was determined in 1981?

Response:

FG&E has determined that it did not record the capitalized lease for the service center on its financial statements until 1987. In that year, FG&E capitalized the lease on its financial statements, in accordance with the adoption of Statement of Financial Standards No. 13 (SFAS 13), "Accounting for Leases", and Statement of Financial Accounting Standards No. 71 (SFAS 71), "Accounting for the Effects of Certain Types of Regulation" (Refer to Attachment DTE-RR-41, which is footnote 11 from the FG&E 1987 Annual Report to Shareholders). This accounting treatment resulted in a net increase in Utility Plant of \$2,879,682 and a corresponding increase to Capitalized Lease Obligations of \$2,879,682, reflecting the present value of the lease payments over the term of the lease obligation, inclusive of all lease term extensions.

In prior years, this lease was accounted for as an operating lease, consistent with the treatment required by the Department for ratemaking purposes. Upon review of its current accounting for this lease as a capitalized lease and the Department's precedent to treat such leases as operating leases for ratemaking purposes, FG&E believes the following adjustments are appropriate to the test year 2001 cost of service in this proceeding:

Step: 1 Remove from Utility Plant in Service (Rate Base) the amount of the Capitalized Lease in account 390.1 on Schedules MHC-8 (Electric) of \$1,046,941 and on MHC-8 (Gas) of \$903,032.

Step 2: Remove from O&M Expense the impact of the capitalized lease accounting treatment that reclassified and transferred a portion of the test year rent expense to below the line interest expense. The purpose of this adjustment is to reinstate O&M rent expenses to a level reflecting ratemaking treatment as an operating lease. This adjustment reverses the amounts that had previously been recorded during the test year as interest expense and increases test year electric rent expense by \$208,650, and increases test year gas rent expense by \$116,959.

Step 3: Proform the test year O&M rent expense to reflect the anticipated reduction of almost 50% in rent expense level resulting from a lower annual lease payment amount of \$269,999 (Monthly payment of \$22,499.91 X 12 months) effective February 1, 2003 per the Lease Agreement (Refer to Data Response AG 5-42 (Common)). This proforma adjustment reflects the annual lease payments to be incurred by FG&E based on current information.

The effect of these adjustments is to reduce the Gas Division revenue requirement by

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approximately \$38,634 and to increase the Electric Division revenue requirement by approximately \$7,862, for an overall decrease of approximately \$31,000.

These adjustments to the test year rate base and the cost of service are shown on Schedule MHC-7-20 (Electric) and Schedule MHC 7-22 (Gas). These new schedules have been provided along with the original filed schedules in the Supplement to Record Request DTE-RR-6 (Electric) and DTE-RR-6 (Gas) dated September 4, 2002.

Person Responsible: Mark H. Collin

Note 10: Joint Ownership Units—(Continued)

Operating expenses of the joint ownership units included in the 1987 Consolidated Statement of Operations and proportionate amounts charged to specific operating expenses are as follows:

	Millstone Unit No. 3	Wyman Unit No. 4	New Haven Harbor	Percentage of Total Electric Expense Category
	(In thousands of dollars)			
Operating Expense, Other	\$109	\$ 72	\$ 430	7%
Fuel Used in Electric Generation	145	102	3,460	93%
Maintenance	61	6	157	11%
Local Property Tax	108	5	223	37%
Other Taxes	4	—	13	6%
Total Operating Expenses	<u>\$427</u>	<u>\$185</u>	<u>\$4,283</u>	

Note 11: Commitments and Contingencies

Lease Obligations—The Company conducts a portion of its operations in leased facilities and also leases some of its operations equipment. The facility lease is for twenty-two years and began in February 1981. The lease is subject to five five-year renewal periods at the option of the Company. The equipment leases include a twenty-five year lease which began on April 1, 1973 for a combustion turbine and a liquefied natural gas storage and vaporization facility. This lease is subject to a ten-year renewal period at the option of the Company at an annual rental of 14½% of the aggregate fair market value at the end of the initial lease term. In addition, the Company leases some equipment under operating leases.

Effective January 1, 1987, the Company adopted the provisions of Statement of Financial Accounting Standards No. 13 (SFAS 13), "Accounting for Leases". In prior years, these leases were treated as operating leases to be consistent with the treatment required by the DPU for rate-making purposes. The change in accounting for leases did not result in any change in income during the twelve months ended December 31, 1987. The change did result in a net increase to utility plant of \$4,761,685 and a corresponding increase to capitalized lease obligations of \$4,761,685.

In accordance with the Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation", the Company retroactively capitalized these leases. For 1986, utility plant, net of accumulated depreciation, increased by \$5,026,954 and capital lease obligations and capital lease obligations currently maturing increased \$4,846,954 and \$180,000, respectively.

The following is an analysis of the leased property under capital leases by major classes:

<u>Classes of Utility Plant</u>	<u>Asset Balances at December 31,</u>	
	<u>1987</u>	<u>1986</u>
Electric	\$ 105,384	\$ 105,384
Gas	385,057	385,057
Common	<u>5,470,152</u>	<u>5,470,152</u>
	5,960,593	5,960,593
Less: Accumulated Depreciation	<u>1,198,908</u>	<u>933,639</u>
	<u>\$4,761,685</u>	<u>\$5,026,954</u>

Note 11: Commitments and Contingencies—(Continued)

The following is a schedule by years of future minimum lease payments under capital and operating leases as of December 31, 1987:

Year Ending December 31,

	<u>Capital</u>	<u>Operating</u>
1988	\$ 846,822	\$ 180,746
1989	780,898	160,749
1990	737,143	143,617
1991	708,923	106,115
1992	662,065	72,695
1993-1997	3,803,961	180,078
1998-2002	2,798,888	—
2003-2007	44,771	—
Total minimum lease payments	10,383,471	<u>\$ 844,000</u>
Less: Amount representing interest	5,621,786	
Present value of net minimum lease payments.....	<u>\$ 4,761,685</u>	

Total rental expense for the years ended December 31, 1987, 1986 and 1985 amounted to \$665,380, \$1,179,349 and \$1,119,138, respectively.

Long-term Obligations—The Company maintains contracts for both natural and supplemental gas supplies and the storage and delivery of natural gas stored underground. These contracts contain minimum purchase provisions which the Company is obligated to pay. The minimum purchase provisions of the natural gas contracts may increase or decrease on action by the Federal Energy Regulatory Commission with regard to curtailment of supply. All of the supplemental supply contracts contain a minimum purchase provision subject to product availability from the supplier.

The approximate minimum commitments under all non-cancellable gas contracts in effect at December 31, 1987 are as follows: 1988—\$3,300,000; 1989—\$3,300,000; 1990—\$3,300,000; 1991—\$3,300,000; 1992—\$3,400,000; 1993-1997—\$13,800,000 aggregate for the period; 1998-2001—\$2,500,000 aggregate for the period.

The Company has contracts for purchases of electric energy with unconditional capacity and transmission charges. The approximate minimum commitments under all non-cancellable electric contracts in effect at December 31, 1987 are as follows: 1988—\$2,700,000; 1989—\$2,800,000; 1990—\$2,400,000; 1991—\$3,400,000; 1992—\$3,500,000; 1993-1997—\$16,000,000 aggregate for the period.

The Company has entered into agreements with other New England utilities to support the operation of a terminal facility and transmission line which are planned to permit the interchange of electricity between such utilities and Hydro-Quebec Electric Corporation. Related support charges, which commenced in 1986, are expected to cost the Company approximately \$200,000 per year.

Pension Plans—(Including change in accounting for pensions.) The Company has in effect two funded pension plans and related trust agreements to provide retirement annuities for participating employees at age 65. The Company adopted the provisions of Statement of Financial Accounting Standards No. 87, "Employer's Accounting for Pensions" (SFAS 87) effective January 1, 1987. The effect of the change in accounting for pension costs and a change in the asset valuation method decreased 1987 pension expense by approximately \$530,787 and increased